
A BILL FOR AN ACT

RELATING TO SEAWATER AIR CONDITIONING.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that seawater air
2 conditioning district cooling systems help to reduce the State's
3 dependence on fossil fuels and support its economy. The twenty-
4 five-thousand-ton seawater air conditioning district cooling
5 system under development for downtown Honolulu can potentially
6 reduce Oahu's dependence on imported oil.

7 The downtown Honolulu seawater air conditioning project
8 will generate millions of dollars in construction-project
9 spending. In addition, it will create a significant amount of
10 long-term, gainful employment. Other local economic development
11 benefits will accrue from money that stays in Hawaii and is not
12 exported outside the State to purchase oil.

13 The purpose of this Act is to include seawater air
14 conditioning district cooling systems in the definition of
15 "service business" in order for them to benefit from the State's
16 enterprise zone program.



1 SECTION 2. Section 209E-2, Hawaii Revised Statutes, is
2 amended as follows:

3 1. By adding a new definition to read:

4 ""Seawater air conditioning district cooling system" means
5 an air conditioning cooling project where at least fifty per
6 cent of the energy required for the air conditioning system is
7 provided by a renewable energy resource, such as cold, deep
8 seawater."

9 2. By amending the definition of "service business" to
10 read:

11 ""Service business" means any corporation, partnership,
12 limited liability company, or sole proprietorship that: repairs
13 ships, aircraft, or assisted technology equipment[~~r~~]; provides
14 telecommunication services, information technology design and
15 production services, medical and health care services, [~~o~~]
16 education and training services; or provides air conditioning
17 project services from seawater air conditioning district cooling
18 systems, as defined in this chapter."

19 SECTION 3. Statutory material to be repealed is bracketed
20 and stricken. New statutory material is underscored.



H.B. NO. 240

1 SECTION 4. This Act shall take effect upon its approval.

2

INTRODUCED BY: Scott. J. ...

JAN 22 2015



H.B. NO. 240

Report Title:

Enterprise Zones; Seawater Air Conditioning

Description:

Expands the types of businesses qualified to receive tax benefits under the state enterprise zone law to include service businesses that provide air conditioning project services from seawater air conditioning district cooling systems.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.





**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: www.hawaii.gov/dbedt

Telephone: (808) 586-2355
Fax: (808) 586-2377

Statement of
LUIS P. SALAVERIA
Director

Department of Business, Economic Development, and Tourism
before the

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS

Tuesday, February 10, 2015
9:00 AM
State Capitol, Conference Room 312

in consideration of
HB 240
RELATING TO SEAWATER AIR CONDITIONING.

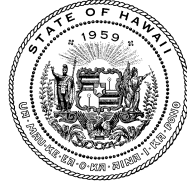
Chair Kawakami, Vice-Chair Kong and Members of the Committee. The Department of Business, Economic Development, and Tourism (DBEDT) offers the following comments regarding amending the Enterprise Zone Program definition of “service business” to include “air conditioning project services from seawater air conditioning district cooling systems” in section 209E-2, Hawaii Revised Statutes.

While the intent of this bill supports the State’s goal of transitioning from our dependence on fossil fuels to renewable resources, we are unsure as to the number of sustainable jobs that will be created in the targeted employment areas designated as enterprise zones. We defer to the Department of Taxation on the impact to State tax revenues of this bill.

Thank you for the opportunity to provide these comments.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

To: The Honorable Derek S. K. Kawakami, Chair
and Members of the House Committee on Economic Development and Business

Date: Tuesday, February 10, 2015
Time: 9:00 A.M.
Place: Conference Room 312, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 240, Relating to Seawater Air Conditioning

The Department of Taxation (Department) appreciates the intent of H.B. 240, and provides the following information and comments for your consideration.

H.B. 240 qualifies the production of air conditioning in an area or district, from a seawater air conditioning cooling system, as an "eligible business activity" under the State's enterprise zones program so that it would be eligible for various tax incentives established in the enterprise zone program. The measure would take effect upon its approval.

The Department defers to the Department of Business, Economic Development, and Tourism on the merits of this measure, but notes that the business would still need to be located in an enterprise zone within the State in order to qualify for the benefits. In addition, even if a business qualifies as an enterprise zone business, in order for the business to be eligible for the general excise tax exemption, the delivery of any service must also occur within an enterprise zone in order to qualify for the exemption. The delivery of a service to customers outside of an enterprise zone would not qualify for the exemption.

Thank you for the opportunity to provide comments



Honolulu Seawater Air Conditioning, LLC
1132 Bishop Street, Suite 1410
Honolulu, Hawaii 96813

Tel 808.531.7922
Fax 808.531.7923
www.honoluluswac.com

Testimony on
H.B. 240
RELATING TO SEAWATER AIR CONDITIONING

Before the
House of Representatives
COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS
Tuesday, February 10, 2015
By
Eric Masutomi, CEO and President
Honolulu Seawater Air Conditioning, LLC

Chair Kawakami, Vice Chair Kong, and Members of the Committee.

Honolulu Seawater Air Conditioning, LLC (HSWAC) strongly supports H.B. 240 which would allow seawater air conditioning district cooling systems to qualify for state enterprise zone benefits.

Deepwater district cooling systems have been successfully implemented in numerous localities throughout the U.S., Canada and Europe – with many in operation for over twenty years. Despite this proven record of success, our experience has shown that when district energy systems such as that being developed by HSWAC are newly introduced in a community, potential customers are frequently wary about the costs of converting to the new system, the risk of higher costs in the initial years of operation and the uncertainties of adapting to a new system. The enterprise zone qualification would significantly assist customers in offsetting the perceived costs and risk inherent in converting to this green technology.

If passed, this bill will assist potential customers of seawater air conditioning district cooling systems in making the critical decision to eliminate existing inefficient cooling systems – currently responsible for more than forty percent of a building's electricity consumption - in favor of utilizing a district cooling system that takes benign advantage Hawaii's abundant surrounding ocean waters. With the potential to reduce electricity consumption used for air conditioning by up to 75%, this technology promises to significantly contribute to the State's sustainability objectives and reduce our dependence on imported fossil fuels.

With proper maintenance, the infrastructure supporting these systems has a useful life of more than 60 years. In addition to the compelling environmental and renewal energy benefits associated with deep water cooling, a seawater air conditioning project in the Downtown Honolulu – Kakaako Enterprise Zone would generate close to \$250 million of dollars in construction spending and create more than 1,500 construction jobs in 2014 through 2016. In addition, it would create a long-term, gainful employment and establish the State as a

leading authority on the development and installation of seawater air conditioning systems throughout the Asia-Pacific region. Other local economic benefits would accrue from money that stays in Hawaii and is not exported outside the State to purchase oil.

The purpose of providing benefits to qualified businesses in enterprise zones is to stimulate business and industrial growth by means of regulatory flexibility and tax incentives. Tax incentives include exemption of qualified businesses from the GET, and State income taxes (on a declining basis), for a period of seven years. Providing these benefits would effectively reduce the costs of such systems to customers and would help tremendously in introducing this promising technology to Hawaii.

Thank you for this opportunity to testify.



Email: communications@ulupono.com

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS
Tuesday, February 10, 2015 — 9:00 a.m. — Room 312

Ulupono Initiative Strongly Supports HB 240, Relating to Seawater Air Conditioning

Dear Chair Kawakami, Vice Chair Kong, and Members of the Committee:

My name is Murray Clay and I am Managing Partner of the Ulupono Initiative, a Hawai'i-based impact investment company that strives to improve the quality of life for the people of Hawai'i by working toward solutions that create more locally grown food, increase clean, renewable energy, and waste reduction. We believe that self-sufficiency is essential to our future prosperity, and will help shape a future where economic progress and mission-focused impact can work hand in hand.

Ulupono strongly supports HB 240, which adds seawater air conditioning cooling systems to qualify under the State's enterprise zones program, because it aligns with our goal of producing more clean, renewable energy in Hawai'i. As Hawai'i's energy issues become more complex and challenging, we appreciate this committee's efforts to look at policies that make Hawai'i more energy efficient.

Seawater air conditioning technology is proven and will help replace the energy-intensive central refrigeration system of a traditional air-conditioning system. Honolulu Seawater Air Conditioning (HSWAC) is targeting buildings in the downtown area that could benefit from substantial savings on electricity and water consumption, system replacement costs, and maintenance costs. By using 44 degree seawater via a freshwater loop instead of electricity to cool buildings, electricity costs can be cut by 75% and save an estimated 77 million kilowatt-hours of power a year, which is equivalent to a 20 megawatt wind farm or a 40 megawatt solar farm. That is enough to power more than 10,000 homes a year and eliminate the need to burn 178,000 barrels of oil a year. HSWAC is one of the State's largest energy efficiency projects.

This technology is known to provide substantial savings of energy and fresh water, both of which are critical to our economy and sustainability. HSWAC will reduce potable water consumption for air conditioning by 260 million gallons, reduce sewage production up to 84 million gallons per year, and avoids 84,000 tons of carbon dioxide (15,000 cars). In addition, it will also help the State move closer to its HCEI clean energy goals.

Investing in a Sustainable Hawai'i



Since this project has potential to greatly benefit the State, we feel this bill should qualify under the State's enterprise zone program. This designation will help to spur greater success in energy efficiency projects that can help Hawai'i become less dependent on imported fossil fuels.

Thank you for this opportunity to testify.

Respectfully,

Murray Clay
Managing Partner

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Expand enterprise zone eligibility

BILL NUMBER: SB 620; HB 240 (Identical)

INTRODUCED BY: SB by Kim by request; HB by Saiki

LATE

BRIEF SUMMARY: Amends HRS section 209E-2 to amend the definition of “service business” in an enterprise zone to include a business that provides air conditioning project services from seawater air conditioning district cooling systems. Adds a definition of “seawater air conditioning district cooling system” to mean an air conditioning cooling project where at least fifty percent of the energy required for the air conditioning system is provided by a renewable energy resource, such as cold, deep seawater.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: This measure proposes to expand enterprise zone laws to include a business that produces air conditioning from a seawater air conditioning district cooling system.

The enterprise zone program was enacted as a cooperative program between the state and the counties to promote jobs in areas of high unemployment. Certain areas are designated as enterprise zones through joint action of the state and counties. In a zone, the state offers an income tax credit for the tax attributable to the eligible business conducted in the zone, which is normally applied on a sliding scale – 80% for the first year, 70% for the second, and so on until the credit is 20% for the seventh and last year in the program. It also offers an unemployment tax credit for the tax attributable to employees doing the eligible business in the zone, on the same sliding scale. Finally, the state offers a general excise tax exemption for the eligible business attributed to the zone. The counties also offer incentives, which vary by county. In return, the business commits to either maintain or increase the number of employees in the zone doing the eligible activity, depending on whether it was already in the zone upon designation or moved to the zone.

As business incentives go, the enterprise zone program is better than most. The incentive applies to a specific activity (here, creating and maintaining employment) targeted to the problem the program seeks to address. The incentive tapers off over time and then stops. It requires accountability, namely required reports to DBEDT for a business to retain its eligibility. The business itself may need a different kind of assistance, such as financing, but the state is here focusing on creating and maintaining jobs in areas that need them.

One criticism of the program is that the designated eligible activities do not seem to have a common thread running through them except that the various activities seem to have been the Flavor of the Month at one time or other. Eligible activities at present are:

SB 620; HB 240 - Continued

- Agricultural production or processing
- Manufacturing
- Wholesaling/Distribution
- Aviation or maritime repair or maintenance
- Telecommunications switching and delivery systems
- Information technology design and production
- Medical research, clinical trials, and telemedicine
- For-profit training programs in international business management or environmental remediation
- Biotechnology research, development, production, or sales
- Repair or maintenance of assisted technology equipment
- Certain types of call centers
- Wind energy producers

The enterprise zone program has been around since 1986. Has there been a comprehensive evaluation of the program and do lawmakers know exactly how much bang they have gotten for their bucks? If the program works, great; if it doesn't work, scrap it. In either event, concurrent efforts must be made to improve Hawaii's business climate to enhance the economic prospects for all businesses.

Digested 2/9/15

**Testimony of Thomas J. Smyth, CEcD
Before the
Committee on Economic Development & Business**

**Tuesday, February 10, 2015 9:00 am Conference Room 312
On**

HB 240 Relating to Seawater Air Conditioning

LATE

Chair Kawakami, Vice Chair Kong and Committee Members:

As the former manager of the DBEDT Enterprise Zone (EZ) Partnership Program, I strongly support adding Seawater Air Conditioning (SWAC) District Cooling Systems to the types of businesses eligible to participate in the EZ Program.

Since its creation in 1986 the EZ Program has been relatively successful in helping more than 250 firms start and grow their workforce in areas that meet certain economic distress criteria. The counties have been active partners in the program by designating zones and establishing their own economic incentives.

To date the only alternative energy activities eligible for EZ benefits are wind farms. This approach is not consistent with the State's focus on developing a strong alternate energy and energy efficient programs. **Addition of those SWAC facilities that are in any of the existing 22 EZs across the state will certainly add to our energy independence emphasis.**

We understand that the SWAC District now being developed for the Downtown Honolulu area, an existing EZ, will not only contribute to fossil-fuel energy dependence but allow co-located state and C&C buildings to save money on their air conditioning costs. Coupled with other energy efficiency efforts this will help them with their budget difficulties. **It should be noted that since EZ firms are granted a GET exclusion, they may not pass any GET tax on to their customers.**

Other sites are being planned, some of which may also be located in currently designated EZs. Since there will not be more than a few such sites, the DBEDT staff effort needed to add them will, in my opinion, be minimal.

Finally, I believe that the exception to the licensed contractor GET exemption in the EZ program is appropriate and will significantly reduce the economic impact on the state. **When coupled with the cost saving for state buildings, the overall dynamic revenue cost-benefit analysis will show a relative balance.**

Thank you for the opportunity to provide comments.